

VII. NON-GOVERNMENTAL CONSTRAINTS

Non-governmental constraints include a variety of factors. Clearly, the potential list of all constraints on development could be quite long, and might include information on national economic conditions and local environmental conditions. However, this analysis will focus on non-governmental constraints that the City may be able to positively impact.

Financing Availability

The availability of financing can sometimes constrain the development or conservation of housing. According to California's Statewide Housing Plan, home mortgage credit has been readily available at attractive rates throughout the U.S. since the early 1990s. Borrowing costs on fixed rate mortgages during the first quarter of 1999 were at their lowest point in 25 years. The beneficial effects of lower mortgage interest rates on home ownership affordability are profound. For example, with mortgage interest rates at 10 percent, and assuming a 15 percent down payment, a family with an annual income of \$87,300 can qualify to purchase a \$252,000 home. With interest rates at 8 percent, the same household with the same \$87,300 income qualifies to purchase a \$302,000 home. With interest rates at 6 percent, the same household could qualify for a \$369,000 home.

Mortgage interest rates clearly have an influence on homebuyers, especially at the lower incomes. Despite recent substantial cuts in the prime lending rate by the Federal Reserve Board, mortgage rates have generally not decreased at the same rate. Nonetheless, mortgage rates have generally declined since the early 1990s, when the rates were as high as 10 to 12 percent, to the current rates of about 7.0 - 7.5 percent.²⁰

Another issue is whether mortgage interest rates are higher or less available in certain areas of the City, a practice called "redlining." A comprehensive report on fair housing in Santa Clara County, released in draft form in May 2002, concluded that any redlining which is occurring in the county is probably not based on banks' screening out areas that are perceived to be predominantly minority.²¹ This report was commissioned and funded by all of the CDBG jurisdictions in the county, including Mountain View, to comply with HUD's requirement for cities to conduct analyses of impediments to fair housing." The report analyzed data provided by banks under the requirements of the Home Mortgage Disclosure Act.

The ability to accumulate enough funds for a down payment remains a significant obstacle to many potential homebuyers. Lower-income homebuyers may have a difficult time transitioning from the rental housing market to home ownership because of the difficulty in accumulating the required down payment, which can be as much as 20-25 percent of the sales price. In the same way, lower-income households may not be able to find appropriate housing because they cannot accumulate the security deposits as well as first and last month's rent.

²⁰ July, 2001.

²¹ "Fair Housing in Santa Clara County," An Assessment of Conditions and Programs, 2000-2002," Empirical Research Group, UCLA, Final Draft, May 12, 2002.

Another issue is the financing available for the construction of new housing. The State notes that the high levels of risk associated with land development, as well as the lengthy development process, make it difficult for developers to find investors and financing. As a result, potential land investors typically require large premiums over and above other types of real estate investments.

Lenders who make land development loans impose lower loan-to-value-ratios, charge higher rates, and/or require the loan to be a recourse loan. If other, lower-risk lending opportunities are available, lenders may eschew land development loans altogether. Twenty years ago, private lenders would provide construction financing based on a loan-to-value ratio of 80 percent. As federal rules regulating lenders changed in the 1980s, lenders became more conservative in their underwriting practices in terms of their loan-to-value ratios. Although this reduced the risk to lenders, it negatively impacted the ability of developers to find sufficient funding for new development. In some cases in the 1990s, banks were reported to be providing loans of only 50 to 65 percent of the project's value.

There are also some risks that relate to development of raw land, but they do not apply in Mountain View where generally all properties already have access to improved roads, utilities and other infrastructure.

Development Cost

Construction Cost

Escalating land prices and construction costs due to a high demand for housing are major contributors to the increasing cost of housing in the Bay Area. The cost of construction involves two factors: the cost of materials and the cost of labor. The cost of construction varies with the type of new housing and the way it is built. According to ABAG, wood frame construction at 20-30 units per acre is generally the most cost efficient method of residential development. However, local circumstances of land costs and market demand will impact the economic feasibility of construction types.

As noted in the Section V, Housing Needs, a study by the RS Means Company in 1998 showed that California cities have the highest construction cost indices in the nation. Means ranks construction markets according to the cost of labor and materials against a national average represented by the number 100. Indices higher than 100 indicate an expensive construction market. The San Jose market, which includes Mountain View, is 121, 21 percent higher than the national average and the second-highest in California. The indices show that the local cost of labor is 32 percent higher than the national average and the cost of materials is 10 percent higher.

According to the Statewide Housing Plan, a survey of construction costs throughout the Bay Area and the State showed that construction "hard costs" are also highest in Santa Clara County, averaging \$95 per square foot, with soft costs at 30 percent. This means that for a 2,000 square-foot home, construction costs alone equal about \$247,000 per unit.

Cost of Land

The cost of land varies considerably between and within jurisdictions. Market factors, especially the desirability of the location, play an important role in setting property values. According to the Statewide Housing Plan, land costs in Santa Clara County were the highest in the State in 1997, averaging \$40 per square foot. Land costs in Mountain View in 2001 were estimated to be \$45 to \$85 per square foot, with the wide range reflecting both location and density (*e.g.*, a prime Downtown location could be \$85 or even higher).

All of these factors serve to impact the overall cost to produce housing, including affordable housing. The following table shows average development costs for one- and two-bedroom apartments and condominiums in Mountain View in 2001. These are the types of housing most likely to be affordable to low and moderate-income households.

**Table VII-1
Estimated Development Costs per Unit
For Attached Housing in Mountain View**

	One Bedroom	Two Bedrooms
Unit Size	650 sq. ft.	850 sq. ft.
Apartments		
Land	\$35,000	\$40,000
Direct Costs	\$110,000	\$120,000
Indirect Costs	\$35,000	\$40,000
Total	\$180,000	\$200,000
Total per Sq. Ft.	\$275	\$235
Condominiums		
Land	\$40,000	\$50,000
Direct Costs	\$130,000	\$150,000
Indirect Costs	\$45,000	\$50,000
Costs of Sales and Profit	\$35,000	\$40,000
Total	\$250,000	\$290,000
Total per Sq. Ft.	\$385	\$340

Source: "City of Mountain View Jobs-Housing Nexus Analysis," Keyser Marston Associates, Inc., February 2001

There have been no standard single-family subdivisions built in Mountain View in the past 10 years. The single-family houses that have been built are on small lots (2,500 to 4,000 square feet). Development costs for these units are in the range of \$275 to \$325 per square foot.

Other Non-Governmental Constraints

An additional significant constraint to the development of housing is created by individual and community-wide fear of perceived decreases in property values, loss of community character, deterioration of service levels, fiscal impacts, environmental degradation, or public health and safety issues. Although this has historically been true of affordable housing, there have been increasing concerns with market rate housing as well. As neighborhoods become built out, any new or increased density housing may be a perceived threat to the existing residents' quality of life in terms of traffic patterns, level of services provided, and community amenities. Mountain View has generally been successful in addressing community concerns through neighborhood planning efforts, an open public review process on individual projects and careful attention to mitigation of potential project impacts.

Construction Defect Litigation

The threat of lawsuits over real or imagined construction defects deters the building of condominiums and townhouses because they are managed by homeowners associations that may be more willing to sue developers than individual homeowners typically are. Thus, according to this argument, California is deprived of badly needed owner-occupied, affordable, high-density and in-fill housing.²²

²²“Construction Defect Litigation and the Condominium Market,” California Research Bureau, Sacramento, November 1999.